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U.S. Attitude Toward Exports to the European Soviet Bloc of Non-Strategic Commodities

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Introduction: Basic Assumption

Strategic goods are defined to include the commodities on the U.S. Master Export Security List, comprising atomic energy items (Part A), munitions items (Part B), and the other items specified under Parts C-I, II, III and IV. All other commodities, including agricultural products, are considered to be "non-strategic" for the purposes of this paper. To assume otherwise would require a departure from the existing U.S. criteria of strategic significance. Such a departure would take us far afield.

I. Present U.S. Attitude Toward Non-Strategic Exports

A. Exports from the U.S.[1/]

The principal specific method of implementation of the economic defense program has been to deny the bloc goods directly related to its war potential. This policy has been carried out by prohibiting the export of all goods having any strategic significance whatever. The export of clearly non-strategic items is and has been permitted, although under close scrutiny, on a case by case basis. This surveillance is made possible by the requirement for a validated export license before shipment of any commodity. Control of quantity or the modification or denial of a proposed export can thereby be accomplished, in keeping with whatever special circumstances may surround a particular transaction.

1/ The U.S. applies a broad range of economic sanctions against Communist China and North Korea, for a combination of security, political, and moral reasons. Thus, the U.S. embargoes all exports, whether strategic or non-strategic, prohibits all imports, and generally forbids any economic intercourse with those regimes by persons, or through transactions, subject to its jurisdiction. Throughout this paper, unless otherwise specified, the term "Soviet bloc" excludes Communist China and North Korea.

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Up to now the U.S. Government has refrained from actively promoting trade of any sort with the Soviet bloc, and the withholding of Government promotion has quite possibly been a contributing factor to the low level of the trade discussed below.

1. NSC 152/3

NSC 152/3 contains several provisions of particular pertinence to this discussion, which run along the following lines:

a. During the current prolonged period of tension between the free world and the Soviet bloc, U.S. courses of action should be based upon the assumption that the maintenance of some personal and commercial contacts between the free world and the bloc may have positive advantages, particularly as far as the Soviet satellite states are concerned.

b. While there is a continuing necessity for U.S. controls over exports to the Soviet bloc, a gradual and moderate relaxation in a practice amounting to virtual embargo of exports would be appropriate, provided that, in the pace and timing of such relaxation, due consideration is given to the effects on the total economic defense effort.

c. One of the general objectives of the economic defense program is to decrease the political and economic unity of the Soviet bloc through skillful flexibility in applying controls.

2. Department of Commerce Licensing Policy and Procedures

Under b. above there has been agreement on a Department of Commerce licensing policy which makes possible a freer licensing of non-strategic exports from the U.S.

U.S. export

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U.S. export controls toward the Soviet bloc were revamped on August 26, 1954, in a manner which brought them much closer than previously to the international controls. All shipments to the bloc still require individually validated export licenses; and the general policy is to deny or limit those commodities which appear on the three international lists plus a few items respecting which unilateral U.S. controls can be effective or which, by their nature, might raise difficult domestic political problems if shipped to the bloc. For all other commodities there is supposed to be a general presumption of approval.

Under existing procedures of inter-departmental consultation and review, the Department of Commerce notifies the EDAC agencies of significant export license applications received in the Bureau of Foreign Commerce. In addition, BFC, of its own accord, raises for inter-departmental discussion any application which contemplates an export to the Soviet bloc that would significantly affect the trend of U.S. exports to the bloc either in general or in terms of the particular commodity, or that might have any significant impact on the supply situation for that item within the Soviet bloc.

3. Special Provisions Relating to Agricultural Products

During the past eighteen months, export license applications were received covering large shipments to the bloc of butter and cottonseed oil, which would have come from U.S. Government-owned surplus stocks. The applications were denied, principally on the grounds that the U.S. should not sell

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not sell these commodities at a loss to unfriendly countries, and that adverse public reaction would follow the sale of butter to the USSR at a price below that paid by American housewives.

At the present time the conditions governing the export of agricultural products from the U.S. to the Soviet bloc are as follows:

Exchanges of government-owned agricultural surpluses for strategic materials with the bloc in barter deals appear, at least for the present, to be ruled out by a Justice Department legal opinion of February 21, 1955. Sales for local currency under the Agricultural Trade and Development Act of 1954 (PL 480) cannot be made because of the provisions of that law.

Direct dollar sales of surpluses acquired from government-owned stocks by private traders, where the sales price is less than the government's investment, have been disapproved on policy, not legal, grounds. This policy was fixed in January 1954 when the Cabinet decided not to permit licensing of butter exports to the Soviet bloc on the grounds stated above: (1) that the U.S. should not sell this commodity at a loss, and (2) that adverse public reaction would follow the sale of butter to the USSR at a price below that paid by American housewives.

In February 1954 the Cabinet further decided "as a matter of policy to deny commercial export license applications for the export <u>for cash</u> of U.S. Government-owned surplus agricultural or vegetable fibre products to Russia or her satellites." At that time the Cabinet agreed that there would be no objection to bartering perishable agricultural surpluses to the bloc in exchange for strategic minerals. At the present time, however, barter

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barter exchanges appear to be precluded, in view of the Justice Department opinion of February 21, 1955.

This would leave only two theoretical possibilities for the export of agricultural products to the bloc. The first possibility is in the area of private transactions involving products acquired from commercial stocks. Such transactions have not been of interest to the bloc, as may be noted from the following facts. Total U.S. exports to the bloc in 1953 were valued at only $2 million, three-quarters of which consisted of tobacco products and wool rags. In 1954 exports were valued at $6 million. Over $3 million of this comprised flood relief shipments of agricultural surpluses to East Germany, Hungary and Czechoslovakia, $0.5 million was in tobacco products, another $0.5 million in inedible tallow, and over $1 million in wool rags.

The remaining possibility would be direct government-to-government sales for dollars. Such sales are legally permissible, but they have not been affirmatively declared to be desirable on policy grounds; and the NSC decided in April 1954 that, in the event of such transactions, there must be a clear advantage to the U.S. and no material injury to the trade of friendly countries.

B. By Other Free World Countries

NSC 152/3 provides that, in the current prolonged period of tension, the courses we take should be based upon the assumption that interference in the trade between the free world and the Soviet bloc should take place only where a clear advantage to the free world would accrue from such interferences,

particularly

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particularly since controls on trade still pose economic and political problems for many of our allies. At the same time NSC 152/3 enjoins us to:

(1) Seek to demonstrate to other countries the risks of excessive reliance on the Soviet bloc as a trade partner.

(2) Encourage and facilitate the flow of trade within the free world, including the entry of commodities into the U.S. by reduction of trade barriers, particularly when the effect of such action would be to decrease the reliance of the free world on the Soviet bloc.

(3) Encourage and support, by all reasonable means, the development of alternative markets and sources of supply within the free world, so as to reduce dependence of free world countries on Soviet bloc markets and sources of supply.

(4) Seek to provide safeguards designed to minimize the immediate effects of a sudden reduction or cessation of trade initiated by the bloc.

(5) Administer current U.S. programs, such as economic development, military procurement, defense support, stockpiling and similar activities, in such a way as to take into account the impact on the economic defense program and, particularly, the objective of decreasing the free world's reliance on Soviet bloc trade.

1. Qualified Acquiescence

The foregoing adds up to a policy of acquiescence, often expressed in terms that the U.S. "does not object" to an increase in non-strategic trade as such with the bloc. This position diverges from that of many other countries, which believe that non-strategic East-West trade should be promoted

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promoted to the maximum extent possible. This belief is reinforced by the continuously growing competitive pressures for markets. The U.S. position has been characterized as essentially negative and, as discussed below, affects U.S. participation in international bodies and in trade fairs behind the Iron Curtain.

As NSC 152/3 stresses, the U.S. does not seek a total embargo on East-West trade, for a variety of reasons, some political, some psychological, and some economic. As a result of this position, we sometimes feel bound not to object to a particular export or exports to the Soviet bloc when, in truth, there may be misgivings about such exports or a preference that they not take place. Two cases in point are Brazilian exports of iron ore to Poland some time ago and, more recently, proposed Spanish exports of pyrites to Eastern Germany. In both cases the foreign firms involved had been recipients of U.S. financial assistance, and neither of them had had an historical trade with the Soviet bloc. In both cases the commodities involved were classified as non-strategic under present criteria, or quasi-strategic at most. These cases, however, were unusual ones in which security considerations were secondary.

2. Policy of Avoidance of Undue Reliance and its Application

An important qualification in the U.S. policy of "acquiescence" or "non-objection" with respect to promoting non-strategic trade with the bloc stems from the concern that, in the case of certain countries or under certain circumstances, non-strategic trade can be manipulated by the bloc with results that would be unfavorable to our political and security objectives.

There are,

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It is true today--as it was two years ago when the present economic defense policies of the U.S. embodied in NSC 152/3 were given expression--that, over the long run, the major results in achieving a position in which the free world countries will view their trade with the bloc as marginal, are apt to accrue from the progress that is made in solving some of the more basic economic problems of the free world. It should be recognized, however, that even if these basic problems were to be solved over-night, trade with the Soviet bloc would still go on simply because: businessmen in the non-Communist countries could make a profit from such trade; there is a desire in some countries to trade with the bloc for political reasons; and in most free world countries outside the western hemisphere there is no stigma connected with this trade. The solution of problems of economic dependence on the Soviet bloc is not unconnected with existing U.S. programs and policies in the economic field which, it should be noted, we would be pursuing even if the Communist menace did not exist. Some of these programs and policies aim at improving the dollar position of the free world, better conservation and increased production, lowering free world trade barriers, economic growth in the less-developed areas of the free world, and international commodity stabilization.

On a few occasions the U.S. Government has taken special measures to assist free countries in lessening the impact of Soviet bloc economic pressures or in reducing their dependence on trade with the bloc. Denmark and Finland have been the principal recipients of this assistance.

In the

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all for Finnish marks. The U.S. intends to utilize the major portion of the available local currency proceeds for the purchase of prefabricated buildings. This would provide a temporary cushion to the Finnish industry, which has suffered a sharp curtailment of its exports because of a large reduction in Soviet purchases.

A number of other modest measures have been considered in the U.S. Government for the purpose of reorienting Finland's trade more preponderantly westward, but few of these measures have been so specific as those described above. By and large, it is probably correct to say that a small measure of success has been achieved, particularly in terms of buttressing the Finnish Government's resolve to keep its economic dependence on the bloc down to manageable proportions.

I. Evaluation of Effects of U.S. Policy

A. Effects on Level of Trade

It is generally agreed that U.S. export policies have not had a major influence on the over-all level of East-West trade, and there are sound reasons to support this conclusion. The basic factors are (1) that the Soviet bloc has been unwilling to permit a higher level of trade, and (2) that, under existing policy, the Soviet bloc has been unable to export sufficient goods of attractive quality and price. For several decades Soviet foreign trade has been strictly maintained at very low levels, amounting to only a tiny fraction of the Soviet national product. Similarly, Soviet satellite states have drastically reoriented their historical trade with Western countries and have forced an abnormal expansion of intra-bloc trade. This low level of East-West trade is a result of Soviet

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For propaganda purposes the Soviet bloc has maintained that East-West trade has been held back by U.S.-inspired export controls. This theme, starting in the summer of 1951 with the preparations for the Moscow Economic Conference (April 1952) and continuing through the relaxation of Western export controls in August 1954, gained considerable acceptance in European trade circles. However, from the last half of 1954 to the present it has become increasingly clear that concrete trade results would not approach expectations. Currently, European traders are concerned over cancelation of some Soviet contracts, mainly for consumer goods. This development, while not yet of major significance, serves to illustrate that Soviet policy, not international trade controls or U.S. policy on non-strategic trade, is the real limitation to expansion of East-West trade.

B. International Trade Control Program (COCOM)

In COCOM the U.S. Delegation has consistently taken the lead in seeking the maximum level of restriction of strategic trade. This position is inherent in the nature of COCOM, which in part came into being as a forum to reconcile differences between American and European thinking on trade controls. Before the reduction of the COCOM embargo list from 260 to 170 items in August 1954, many European business and government leaders openly differed with the U.S. as to what commodities should be considered strategic, and, to a degree, felt that the long-range goal of the U.S. was to control all trade, including non-strategic.

However, as a result of the reduction in the embargo lists, this feeling was considerably dissipated, despite the fact that the reduction was not as drastic as some had hoped. Another outstanding factor in lessening the

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Other disadvantages which it is said result from our present attitude relate to the limitations on the use of trade as a means of propaganda. As has been indicated in Part II of this paper, we have avoided up to now participation in trade fairs so as not to create erroneous inferences as to U.S. encouragement of East-West trade and future U.S. licensing of exports. We have, as a result, lost potential propaganda and personal contact opportunities. It is further argued that a more positive policy on trade would permit exploitation of whatever propaganda opportunities are inherent in emphasizing availabilities to the Soviet bloc populations of non-strategic goods, especially consumer goods, in the face of the Communist governments' inability or refusal to buy. Our ability to use trade for purposes of propaganda exploitation, however, does not so much require a policy of active promotion of non-strategic trade as a licensing policy which conforms to our stated policy of non-objection to non-strategic exports to the Soviet bloc. Similarly, although our policy of not promoting East-West trade affects our ability to encourage private American firms to participate in Iron Curtain trade fairs, it should be possible to conceive of ideas, such as the Good Housekeeping exhibit mentioned above, which avoid the implication of active promotion of trade.

Finally, it can be argued that our present policy results in the sacrificing of trade opportunities for American business. However, it is clear, as noted above, that there is little interest in trade with the Soviet bloc on the part of the American business community in general.

As is indicated by the foregoing, there may be, as is alleged, certain disadvantages to the present U.S. attitude on non-strategic trade. These do not

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The remaining obstacles to the active promotion of East-West trade lie in the field of public and Congressional opinion. This question, however, is to a very large degree related to the state of international tensions. So long as the policies and actions of the Communist world continue to be directed toward aggression and subversion, American public opinion will not favor trade with Communist countries on a large scale and large segments of public opinion will undoubtedly continue to insist upon stringent control measures.

B. Further Stiffening of U.S. Attitude

A second possible alternative to the present U.S. attitude on non-strategic trade might be a further stiffening of our attitude. Such an alternative would be more theoretical than practical under present circumstances. Under the assumption that international tensions would not increase in the near future, and so long as there is the promise or even a possibility of an improvement in the international situation, it would be virtually impossible to obtain agreement on the part of other free world countries to further restrictions on East-West trade. Thus, a further stiffening of the U.S. attitude at the present time would serve to reduce further only U.S. exports to the Soviet bloc. In view of present low levels of such exports, a further reduction would constitute an embargo.

In the absence of comparable action by the free world it is doubtful that a stiffening of the U.S. attitude would have any effect whatsoever on the countries of the Soviet bloc. On the other hand, it may be expected that such a policy on the part of the U.S. would alarm our allies and might lead them

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A policy of less qualified acquiescence would nevertheless encounter a number of problems and might involve seeking changes in existing legislation. One of the problems which may be anticipated is the question of what is strategic. The strategic significance of some commodities is in large measure dependent upon the quantity. Thus a shipment of one or two automobiles might not involve any problem of strategic significance, whereas a shipment of five hundred automobiles would raise a serious question in some quarters. A less extreme case is the question of commodities which, because of the supply situation both in the Soviet bloc and the free world, is not strategic but which, nevertheless, is considered strategic in the public mind for historical reasons. Commodities which might fall into this classification include iron ore and rubber. It is problems such as these which have resulted in the numerous qualifications to our general policy of non-objection to non-strategic exports.

The most serious exception to our general policy of acquiescence, however, concerns the export of agricultural commodities. Apart from the interpretations of PL 480 which prohibit sale for foreign currency or direct or indirect barter of government-owned agiruclltural commodities, it has been decided as a matter of policy not to license the export of such goods which are sold to the bloc at prices less than the government's investment in such goods. As has been indicated elsewhere in this paper, the effect of this policy and the Justice Department's interpretation of PL 480 has been to limit severely the possibilities of agricultural exports to the bloc. Unless it were

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were determined that agricultural products should be embargoed to the bloc for strategic reasons, it is believed that a policy of non-objection to non-strategic trade should permit sales of agricultural commodities on a less restrictive basis than at present.

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SUMMARY AND CONCLUSIONS

The present U.S. attitude toward non-strategic exports to the European Soviet bloc can be characterized as one of qualified acquiescence. As regards exports from the U.S., the general policy is to deny or limit the export of commodities which appear on the international control lists plus several commodities on which unilateral U.S. controls are considered to be effective, or commodities which, by their nature, might raise difficult domestic political problems if shipped to the bloc. There are certain additional restrictions relating to agricultural exports. Similarly, our attitude toward non-strategic exports by other free world countries is one of general acquiescence, subject to the qualification that such trade should not lead to an undue reliance upon the Soviet bloc.

This policy of qualified acquiescence has diverged from the policies and attitudes of most free world countries, which have adhered to a general policy of promoting an expanded East-West trade in non-strategic commodities. As a result of this divergence, and because of Soviet emphasis on expanded East-West trade, the essentially negative position of the U.S. has been highlighted and exaggerated. The failure of the U.S. to promote non-strategic trade has affected also our ability to take advantage of certain propaganda opportunities, including participation in trade fairs behind the Iron Curtain.

Among the possible alternatives to our present policy are (1) active promotion of trade in non-strategic items, (2) a further stiffening of the U.S. attitude, and (3) less qualified acquiescence in the promotion of non-strategic East-West trade by other free world countries. A policy of active promotion is considered to be inappropriate in the absence of a marked

improvement

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improvement in international tensions, unwarranted from a commercial point of view, and subject to adverse public opinion and some legal obstacles.

A further stiffening of the U.S. attitude toward East-West trade would find little support among free world countries in the absence of a serious deterioration in world conditions, and, as a unilateral U.S. policy, would have little effect on the Soviet bloc. Accordingly, such a course is considered inadvisable at the present time.

The third alternative, less qualified acquiescence, is essentially a modification of our present position. Such a course of action would be aimed at reducing or eliminating the confusion and contradictions in our present policy of qualified acquiescence. Since the qualifications in our present policy result in large measure from public and Congressional opinion factors, there may be some obstacles to removal of these qualifications. However, a policy of acquiescence unencumbered by existing qualifications would overcome many of the disadvantages of our present policy without encountering the major disadvantages of a policy of active promotion.

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